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SUBJECT: MADRID WEEKLY ECONOMIC UPDATE - NOV 1-7

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### Unemployment Continues to Soar

**¶1.** (U) On November 4, the Ministry of Labor released statistics showing an increase of 192,658 registered unemployed workers for the month of October, the sharpest month-to-month increase ever recorded. This brings the total of unemployed to over 2.8 million, with immigrants especially affected. The third quarter unemployment rate was 11.3%, but the EU and prominent business association CEOE project that this level may reach up to 15 and 17 percent within the next two years, respectively. At an EU event November 4, Second Vice President and Minister of Economy Pedro Solbes stated that unemployment had become Spain's principal concern. (All media, 11/4/08 and 11/5/08)

### President Zapatero Announces New Economic Emergency Measures

**¶2.** (U) In a move to address the unemployment crisis, President Zapatero announced on November 3 a new set of economic measures to allow those unemployed with mortgages of less than 170,000 euros to postpone half their monthly payments for the next two years (an estimated beneficiary group of about 500,000). Additionally, the plan would provide a 1500 euro subsidy to companies that hire unemployed workers with families to support, and would provide tax cuts for workers earning less than 33k euros annually while paying mortgages. The measure is expected to be approved by the Council of Ministers on November 7, and has a total estimated cost of between 100-400 million euros. Zapatero has indicated that his priority is assisting families affected by the economic crisis, even if it means pushing Spain's budget deficit above the EU ceiling of 3%. (All media, 11/4/08 and 11/25/08)

### Delinquency Rate on the Rise, but Banks Expected to Weather the Storm

**¶3.** (U) The Bank of Spain released a financial stability

report November 5 showing that the rate of loan delinquency by families and business had increased to 2.54% in October from 0.75 percent the year before. The report projected that the rate of delinquency would continue to rise over the next few quarters. Despite this, the report determined that banks extended very few loans over the past 3 years, and that Spanish banks would be able to sustain up to a 9 percent delinquency rate before experiencing extreme difficulty. Comment: Smaller banks with higher exposure to Spain's flailing residential real estate market are beginning to consolidate, but no major bank closings are expected in the near term. Spanish banks and "cajas" (savings banks) are subject to conservative banking regulations that require high provisions for losses and strict accounting practices, and as a result have weathered the financial storm better than their counterparts elsewhere in Europe. (El Pais, Cinco Dias, 11/6/08, Embassy)

#### Repsol Given Reprieve to Operate in Ecuador

¶4. (U) Repsol reached an agreement November 6 with the GOE to continue its operations for at least one more year in Ecuador. This agreement comes after the GOE announced the week before that Repsol's license would not be renewed because of failed talks regarding a new operating contract. The media reports that during this year-long extension, Repsol's tax burden will remain at 70 percent, significantly below the 99 percent level sought by the GOE. (All Media 11/7/08)

#### Spain to Enter into a Recession?

¶5. (U) Recent IMF predictions are that Spain will suffer a contraction of 0.7 percent in 2009. This prediction comes on

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the heels of recent Bank of Spain data showing that third quarter GDP fell by 0.2 percent from the previous quarter. However, on a year-on-year basis, GDP increased by 0.9 percent. (All Media 11/1/08, 11/6/08)

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